



Google Strategic Partnership with Activision Blizzard King (ABK)

Attorney Client Privileged
Dec 2019

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EXHIBIT 151.R

EXHIBIT 151.R-001

This document is now locked

It was presented to BC on Dec 18th 2019

The general structure and the amounts were approved

Please reach out to Karen Aviram Beatty@ or Marc Theermann@ with questions

Executive Summary - ABK

Deal Overview:

Our Play, Cloud, Ads, and YouTube leadership teams are excited to put forth this xPA deal with one of the most important game publishers in the world. Activision Blizzard King (ABK) is part of the target list of 22 developers [approved by BC](#) for Project Hug. Purpose of this deal: solidify Play relationship and provide further xPA incentivisation and velocity.

Opportunity to secure a competitive \$230M GCP commit for greenfield account, make sure Activision continues to grow on Play, receive agreement to launch on Stadia, and attain exclusive Esports license.

Guarantees to Google:

- Continued Play partnership for ABK titles; Standard Hug developer obligations + Consumer Spend commitment
- \$230M Cloud commitment over 3-4 years
- \$345M in Ads spend commitment over 3 years
- Exclusive eSports distribution license for YouTube
- Commitment to partner on Stadia (deal terms TBD)

Guarantees to ABK (for each of 3 years):

- GCP credits equal to 2% of Play consumer spend (no cap)
- UAC Matching credits: \$1 UAC ads credit for every \$3 ABK spends in UAC (\$35M/year cap)
- Co-marketing funds: \$1 in co-marketing funding for every \$3 of ABK marketing spend (\$20M/year cap)
- eSports Licensing: \$45M for exclusive eSports distribution license for YouTube

- Our Play, Cloud, Ads, and YouTube leadership teams are excited to put forth this xPA deal with one of the most important game publishers in the world, Activision Blizzard King (ABK).
- This deal would solidify our Play relationship and ABK's commitment to our platform, cement a premier top gaming partner on Cloud, increase our gaming ads revenue, and bring an important source of gaming content to YouTube.

Slide 3

1

Redacted - Privilege

Karen Aviram Beatty, 12/18/2019

2

Marked as resolved

Karen Aviram Beatty, 12/18/2019

2

Re-opened

Henry So, 12/18/2019

3

This may change our analysis and I have operational concerns as well. Can we discuss please before we present to BC?

Henry So, 12/18/2019

1

will ping you over GVC

Marc Theermann, 12/18/2019

1

Would we be able to discuss the ads commit piece, particularly how we plan to execute in the event they do not meet it?

Henry So, 12/18/2019

2

Redacted - Privilege

We also discussed the manual nature of the execution of this deal, and the operational challenges. We will likely need additional resources this and other deals like this.

Marc Theermann, 12/18/2019

Recap: BC approved Games Velocity Program (“Project Hug”)

Play funded program to unlock Google value to 22 top game developers

Google Goals: Titles ship on Play, xPA upsell, improved ecosystem sentiment

Four new cross-Google “service packs”, across the developer lifecycle



Build, Test, Run

Reduce cost
and friction

Cloud Credits

- 2% of Play Spend
- 3 years



Launch & Grow

Boost user awareness
and extend growth

Co-marketing

- \$1 for \$3 spent by developer
- 1 year



User Acquisition

UAC Credits

- \$1 for \$3 spent by developer
- 1 year



Community
Development

Engage and
retain users

YouTube Grants

- \$1M to create content / grow channel

eSports events +
sponsorships

Google

Key Gives

Gives also include enhanced consultations

- Product determined we'd be able to absorb \$300M-\$500M credits on UAC without adversely affecting the auction
- Based on this, we don't believe the ABK deal should pose any risk to the overall auction



Activision Google partnership: requiring BC approval

	Google Gets	Google Gives	BC approval required for
Cloud	<p>\$230M commit over 3-4 years</p> <p>Grow ABK business on GCP + Migrate their entire enterprise to G-Suite in 2020 + ABK agrees to public endorsement</p>	<p>~\$60M GCP credits over 3 years</p> <p>Credits equal to 2% of Play consumer spend (no cap)</p>	<i>BC approved under Hug</i>
Ads	<p>Grow ads revenue</p> <p>By incentivizing UAC spend via matching credits. ABK willing to commit \$115M/year in min ad spend</p>	<p>Max \$105M Ads matching credits over 3 years</p> <p>\$1 credit for every \$3 ABK spends in UAC Max amount = \$35M/year (We would terminate the current King Hug deal)</p>	<p>2 year extension of Hug</p> <p>(\$35M in Year 2 & \$35M in Year 3)</p>
Play	<p>Mitigate risk on Play store</p> <p>Ensure SIM-ship of ABK titles, commitment to our retail environment, and Play prioritization. Address Play Rev Share concern</p>	<p>Max \$60M co-marketing over 3 years</p> <p>\$1 credit for every \$3 ABK spends Max amount = \$20M/year</p>	<p>2 year extension of Hug</p> <p>(\$20M in Year 2 & \$20M in Year 3)</p>
YouTube	<p>Increase YT viewership</p> <p>By securing exclusive rights to Esports leagues</p>	<p>\$135M payment over 3 years</p> <p>Exclusive distribution license for Esports leagues (\$40/45/50 in years 1/2/3)</p>	<p>\$135M payment (\$85M from Cloud; \$22 from YT; \$28M from ???)</p>

Google

- Note: Ad Manager excluded due to separate contract negotiations, current deal expires February 2020





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Credits and Licensing Costs

\$115M: have already been approved by BC for Project Hug

\$245M: require BC approval for funding

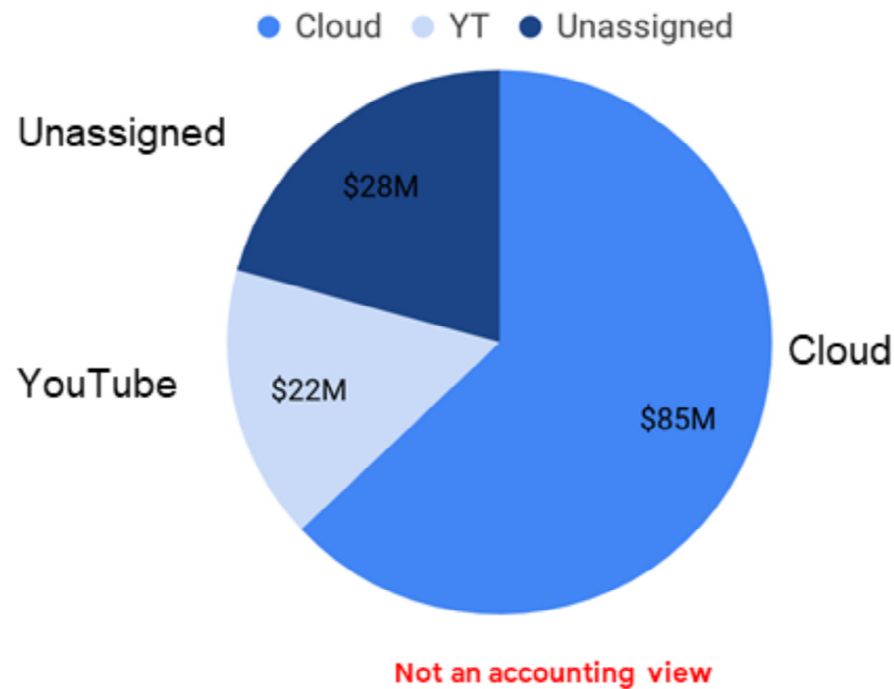
	Year 1	Year 2	Year 3	Total
 GCP Credits	\$20M	\$20M	\$20M	\$60M
 UAC Matching Credits	\$35M	\$35M	\$35M	\$105M
 Co-Marketing	\$20M	\$20M	\$20M	\$60M
 Esports Licensing	\$40M	\$45M	\$50M	\$135M
Total	\$115M	\$120M	\$125M	\$360M

Google

- ABK wants \$45M more vs this proposal
- \$15M in GCP credits (2.5% of Play consumer spend) AND
- \$10M more per year for Esports licensing (\$50/55/60)



PA willingness to pay for Esports license



Reason for Google to allocate these funds:

This deal helps to solidify ABK's commitment to our **Play** platform, cement a premier top gaming partner on **Cloud**, increase our gaming **Ads** revenue, and bring an important source of gaming content to **YouTube**.

Google

EXHIBIT 151.R-008



xPA Goals & Risks for Activision Deal

Create a deeper relationship with one of the largest gaming publishers in the world

	PA Goals	PA Risk	Potential revenue per year (at risk)
Play	Sim-ship: Launch ABK titles on Play on 'Day 1' of mobile launch Title Parity: Maintain game feature/content parity across mobile platforms Quality: Maintain high quality (4.0 star)	Activision has told us that they will build their own mobile store. Tencent portfolio exploring other business models to take revenues off Play. Epic's side loading Fortnite launcher turned into Epic Mobile Game store .	Est. \$243M per year (Alternative business models might create slow drain, or irrational decisions might put more revenue at risk. King titles currently secured with 1 year Hug deal, which ends in 2020)
Ads	Grow ads revenue by incentivizing UAC spend via matching credits	In a scenario where ABK pulls their games from the store, the mobile performance revenue would go to zero on Android and reduce on iOS	\$100M+ in 2020 (75% at risk. Some spending might remain, but more would move to other channels)
Cloud	Growing ABK's business on GCP. Migrate enterprise to G-Suite in 2020 + ABK agrees to public endorsement	Lose important gaming client to AMZN	\$230M Commitment over 3 years (binary. 100% at risk)
YouTube	Increase YT viewership by securing exclusive rights to Esports leagues & stop User Generated Content revenue share discussion	Current YT business largely untouched, but they could start claiming UGC or take down content. Twitch would continue to own gaming narrative	ABK gross revenue YTD for UGC content across their IP is \$45.8M [link]
Stadia	Drive Stadia adoption and player growth by securing AAA/high ROI content	Long-term gap in Stadia's content portfolio	

- Parity on a title by title basis?

Financial Summary

Contribution Margin by PA (before any transfers and x-PA allocations)

(\$M)	Contribution Margin	CM vs Hug	Comment
Play	\$680	-\$40	Hug terms extended for 2 years
Ads	\$281	-\$70	Hug terms extended for 2 years
Cloud	\$75	\$68	\$230M Cloud commit
YouTube	-\$113	-\$113	\$135M eSports licensing payment
TOTAL	\$923	-\$154	
Cloud / YT (combined)	-\$37	-\$44	

Sensitivity Analysis: Contribution Margin of Cloud / YT (combined)

(\$M)	YouTube Fee	Size of Cloud Commitment						
		150	200	230	275	300	325	345
	45	\$9	\$36	\$53	\$77	\$90	\$104	\$115
	75	-\$21	\$6	\$23	\$47	\$60	\$74	\$85
	85	-\$31	-\$4	\$13	\$37	\$50	\$64	\$75
	120	-\$66	-\$39	-\$22	\$2	\$15	\$29	\$40
	135	-\$81	-\$54	-\$37	-\$13	\$0	\$14	\$25

Finance Summary PoV

- The value exchange of the proposed deal is negative relative to a standard Hug deal.
- However, ABK has stated that they will NOT sign a standalone Hug deal (when King deal expires in 2020).
- Therefore, whether or not to do this deal should hinge on (i) strategic value to Cloud above the revenue commitment and/or (ii) a belief that not doing a deal exposes Play to material risk
- Allocation to PAs of \$135m licensing payment is still tbd. We expect accounting assessment by Fri; initial estimate is 60+% to Cloud; <40% to Play.
- As an indication of value, it is instructive to understand how much each PA would be willing to contribute to fund the deal. Current inputs: Cloud - \$40-\$85m; YT - up to \$22m; and Play still evaluating; leaving a *funding gap* of ~\$28m
- YouTube revenue is based on speculative ad tech that hasn't yet been built. Product delays or other shortfalls could decrease the \$22M that YouTube thinks it could earn from this content. (The momentum run rate of the revenue generation is \$3M.)

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Detailed Explanation of Deal Components

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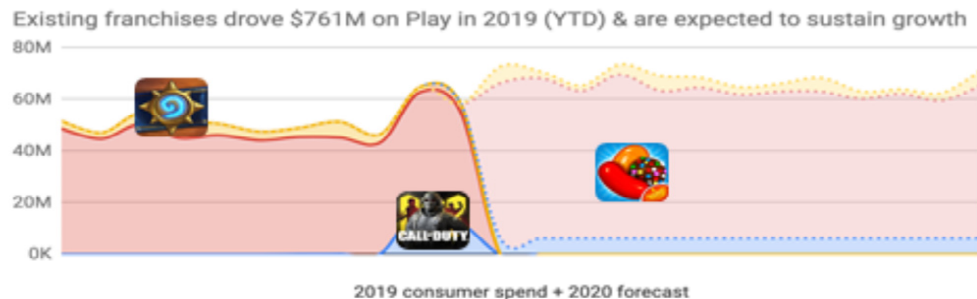
NON-PARTY HIGHLY CONFIDENTIAL — OUTSIDE COUNSEL EYES ONLY

GOOG-PLAY-007173356



Why is Activision Blizzard King important to Google Play

- One of strongest gaming IP portfolios & many are still coming to mobile
 - **Candy Crush** top grossing franchise in US app stores 2018 & 2019
 - **CoD** best selling console game for 10+ years
 - **World of Warcraft, Diablo, StarCraft, & Overwatch** are all strong console & PC franchises with real mobile potential
- ABKs existing mobile franchises are high-performing & beloved by Android users
 - **377M** installs, **245M** MAU
 - **\$761M** consumer spend
 - **5%** of Play HVUs
- Strong performance forecasted through 2023; its in Play's best interest to secure ABK catalog for Android



- note : HVU = users who spend >\$1500 a year



Activision Blizzard King GCP deal

- The GCP commit is \$230M over 4 years. We believe the consumption will be much higher as ABKs budget (confirmed by CIO) is closer to \$1B over 4 years.
- First Tencent portfolio company on GCP
- ABK Global CIO, our key cloud executive (Jacques Erasmus), comes from King. We have a very strong relationship and he is inclined to work with GCP and publicly talk about GCP. King has already agreed to a public use case on their GCP usage. We would like to feature ABK at our cloud events to drive growth in the games vertical in cloud.
- AWS is currently their preferred cloud provider. Having the top 3 largest game publisher speak highly of their GCP implementation will help grow our cloud business in games.
- Amazon is positioning AWS + Twitch as their core value proposition and favorable commercials
- ABK CIO also open to drive full GSuite migration from O365 (\$2m / year)

Note:

- We believe that AWS is asking for a \$300M commitment over 3 years - possibly connected to a \$100M Twitch broadcasting licensing offer over 2 years



YouTube Content Licensing (Activision/Blizzard Esports)

- **About:** Despite the declines of Overwatch from a UGC perspective, the Overwatch and Call of Duty Esports league are cornerstones of the Esports industry, and a quintessential example of high end Esports productions. These leagues would be incredibly valuable to YouTube on an exclusive basis as part of our efforts to grow Live Gaming and Account Linking, but **we have stayed away from acquiring these rights due to astronomical costs** and have deferred to AMIP Live Gaming, and Account Linking as better investment paths.
- **Ads (no improvements):** All revenues on O&O channels would be recoupable, however, YouTube isn't inventory constrained in Gaming, and due to Brand Safety concerns, aren't monetizing Live like we do for Uploaded content. In addition to this, we are lacking significant ad product features that would allow us to maximize impressions across the content. Because of this, **the ads recoupment is limited to only \$2.1M over the duration of the deal in its entirety.**
- **Ads (ad improvements):** If YouTube was willing to commit by January 2021 to ad products such as DAI coverage, interest based ads, demand diversity, and ad podding, **we could recoup up to \$31.4M over the duration of the deal.** This assumes ad-tech work to improve monetization and as well as premium CPMs and STRs.
- **Cost: \$135M over 3-years**

- RPH: Revenue per Hour



Detail Financial Models

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Accounting Operationalization Concerns

Risk factor	Explanation	Possible blocker?
Technical accounting assessment	<ul style="list-style-type: none"> ● This deal is unprecedented in its complexity and xPA implications ● The payments to ABK for the YT eSports distribution rights, and potentially the Stadia-related payments, introduce a substantial amount of contra-revenue, and the exact contra-revenue allocation is not yet finalized (expected to be borne by Cloud and Play at this time) ● Due to expanded segment reporting from Project Sushi, there will be an increased need to reflect each PA's revenue/margins accurately ● Alphabet Technical Accounting and EY are engaged, but finalizing the proper accounting assessment will take time and current thinking could change based on the final contractual terms 	Yes (if results are unacceptable to impacted PAs)
Entity (mis)alignment	Redacted - Privilege	
Manual support	<ul style="list-style-type: none"> ● There is no automated solution in place that supports xPA transactions ● Properly accounting for this deal, and supporting it, will be extremely manual and time-intensive ● Additional HC may be required by impacted PAs 	No (pending resources)

Google

Ads Finance Model

CASE (\$M)	BASE 2020	BASE 2021	BASE 2022	BASE 2023	BASE 2020-2023
Play Spend	\$810	\$830	\$810	\$790	\$3,240
Ads - Non-UAC Spend	\$55	\$69	\$81	\$91	\$296
Ads - UAC Spend NOT eligible for Credits	\$5	\$7	\$8	\$10	\$30
Ads - UAC Spend eligible for Credits	\$96	\$127	\$160	\$192	\$575
Total Ads Spend	\$156	\$203	\$249	\$293	\$901
Ads payments to 3rd-parties - Aggregate	\$66	\$85	\$105	\$123	\$378
Ads Cost to Serve (TI & Other)	\$23	\$30	\$37	\$44	\$135
Ads Contribution Margin (pre-credits)	\$67	\$87	\$107	\$126	\$387
Ads Contribution Margin (pre-credits) % of Spend	43%	43%	43%	43%	43%
Ads - DVIP Credits	\$0.4	\$1.5	\$1.5	\$1.5	\$4.9
Ads - UAC Credits	\$32	\$35	\$35	\$0	\$102
Ads Contribution Margin (post-credits)	\$35	\$51	\$71	\$124	\$281
Ads Contribution Margin (post-credits) % of Spend	22%	25%	28%	42%	31%
Ads - UAC Credits already funded by Hug	\$32	\$0	\$0	\$0	\$32
Ads Contribution Margin Impact vs. Hug	\$0	-\$35	-\$35	\$0	-\$70

Summary:

1. Ads Revenue - Assumes business as usual revenue growth; **no incremental upside assumed** as part of the deal.
1. **Current volume of credits estimates a 12% loss in contribution margin vs no deal over 4 year period**
1. Based on current revenue projections, **deal would max out on credits in year 1 itself, leaving no incentive for growth beyond year 1**

Assumptions:

- Ads Revenue - Revenue projections based on a weighted average forecast based on momentum, business plan and sales input, with some deceleration in successive years and a 5 yr CAGR of 20%
- UAC credits assumed to be at the hug approved 33%, capped at \$35M per year. No credit in year 4.
- TAC assumptions based on 2019 product mix and 2019 average TAC by product
- Contribution margin does not take into account the impact of other incentives outside of Hug and direct client DVIP

Slide 16

- 3 Seems like a negative view of the situation. Can we clarify this comment to better reflect the reality. The Credits have a max amount that can be accumulated per year. Each year the client has to spend this amount to get the credits. So the incentive stays the same each year. It does not decrease. It is true that the incentive for growth is not captured, but the reason for that is that we were not allowed to do a DVIP for multiple years on top of this deal (as DVIPs are 1 year only).

Marc Theermann, 12/18/2019

- 1 Hi Marc - I am happy to chat live, but I believe this is just a transparent view from an ads POV. I acknowledge that there are x PA benefits for this deal and that ads benefits are not a key point of the deal. Just putting some points down here for you to consider.

1. Whether we do a DVIP deal or not, the release of these \$35M in credits is not dependent on the client meeting those DVIP commitments. The only thing they lose if they don't meet their DVIP commit is the \$400K - \$1.5M in DIF.

2. To put things in perspective, ABK has \$112M in ads revenue this year. \$100M if I only count non search which is comparable to DVIP commits.

We are saying we will drive a \$115M commitment per year. In 2020, this is an increase of \$15M vs \$35M in credits, so Google will lose margin in effect.

For year 2 and 3, the \$115M = 0% over previous years, and yet they will unlock the \$35M.

Hence the point that they don't really have to grow vs 2019 to unlock their full credits

Rekha Natarajan, 12/18/2019

Play Finance Model (without xPA transfers)

CASE (\$M)	BASE 2020	BASE 2021	BASE 2022	BASE 2023	BASE 2020-2023
Play Spend	\$810	\$830	\$810	\$790	\$3,240
Play payments to 3rd-parties	\$567	\$581	\$567	\$553	\$2,268
Play Cost to Serve (TI & Other)	\$58	\$60	\$58	\$57	\$232
Play Contribution Margin (pre-investment)	\$185	\$189	\$185	\$180	\$740
Play Contribution Margin (pre-investment) % of Spend	23%	23%	23%	23%	23%
Play Contribution Margin (pre-investment) % of Play Reven	76%	76%	76%	76%	76%
Play - co-marketing investment	\$20	\$20	\$20	\$0	\$60
Play Contribution Margin (post-investment)	\$165	\$169	\$165	\$180	\$680
Play Contribution Margin (post-investment) % of Spend	20%	20%	20%	23%	21%
Play Contribution Margin (post-investment) % of Play Reve	68%	68%	68%	76%	70%
Play - investment already funded by Hug	\$27	\$0	\$0	\$0	\$27
Play Contribution Margin Impact vs. Hug	\$7	-\$20	-\$20	\$0	-\$33

Key callouts:

- Play Spend: forecasted spend from ABK on Play**
 - Driven by new title launches and existing title follow a decline curve
 - 85% of spend driven by King
 - 25% to +35% range variability on 4 year spend
- Play payments to 3rd parties:** 70% payout to developers as part of rev share
- Play cost to serve** includes payment processing fees, customer support and Technical Infra costs
- Incremental \$33 M ask over 2020-2023**
 - Current proposal** of \$60 M (\$20 M/year) in Play co-marketing
 - Hug funded** one-year investment of \$27 M in co-marketing, eSports events, YT Presence grants & Ads SVA
- Pure program economics view, does not reflect impact of GCP & UAC credits on Play P&L**

Cloud Finance Model (without xPA P&L transfers)

(\$M)	BASE 2020	BASE 2021	BASE 2022	BASE 2023	BASE 2020-23
Play Spend	\$810	\$830	\$810	\$790	\$3,240
Cloud Spend - Gross	\$47	\$78	\$110	\$125	\$361
Cloud Spend Discount	36%	36%	36%	36%	
Cloud Spend - Net	\$30	\$50	\$70	\$80	\$230
Cloud Cost to Serve (TI & Other)	\$14	\$23	\$32	\$37	\$106
Cloud Contribution Margin (pre-credits)	\$16	\$27	\$38	\$43	\$124
Cloud C. Margin (pre-credits) % of Net Spend	53%	54%	54%	54%	54%
Cloud - Credits (for years 1-3 ONLY)	\$16	\$17	\$16	\$0	\$49
Cloud Contribution Margin (post-credits)	\$0	\$10	\$22	\$43	\$75
Cloud C. Margin (pre-credits) % of Net Spend	-1%	21%	31%	54%	33%

Discounts: 36% average (50% GCP Network; 22% EDP; 25% Compute VM, 15% Storage): needed to compete vs AWS

Net Revenue: \$230m (not factoring possible spend beyond commit); back-loaded ramp is standard for GCP.

Cost to Serve: Technical infrastructure for client's usage

Gross Margin: 54%, close to 2019 GCP [P&L](#) average (52%)

Credits: \$49m Hug credits over 3 years; no credits in year 4.

Note: these credits will be recognized as Cloud revenue (Play>Cloud transfer)

Not factoring possible contra-revenue for eSports Licenses costs

Cloud Finance Margin sensitivity (with xPA P&L transfers)

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Deal Revenue (counts Hug credits as Revenue) (before YT contra)		\$200m / 4 years	\$230m / 4 years	\$230m / 4 years	\$230m / 4 years	\$520m / 4-5 y	\$520m / 4-5 y
Discount on GCP Network		70%	70%	60%	50%	70%	50%
eSports licence cost in GCP P&L							
\$0	Rev	200	230	230	230	520	520
	Cost to serve	123	141	119	106	317	239
	GM	77	89	111	124	203	281
	GM %	39%	39%	48%	54%	39%	54%
\$43	Rev	157	187	187	187	477	477
	Cost to serve	123	141	119	106	317	239
	GM	34	46	68	81	160	238
	GM %	22%	25%	36%	43%	34%	50%
\$64	Rev	136	166	166	166	456	456
	Cost to serve	123	141	119	106	317	239
	GM	13	25	47	60	139	217
	GM %	10%	15%	28%	36%	30%	48%
\$85	Rev	115	145	145	145	435	435
	Cost to serve	123	141	119	106	317	239
	GM	-8	4	26	39	118	196
	GM %	-7%	3%	18%	27%	27%	45%
\$135	Rev	65	95	95	95	385	385
	Cost to serve	123	141	119	106	317	239
	GM	-58	-46	-24	-11	68	146
	GM %	-89%	-48%	-25%	-11%	18%	38%

Base case (\$230m/4y, 50% discount on Network): GCP Gross Margin is acceptable if Cloud carries <\$85m of the eSports licenses costs

Low case (\$200m/4y, 70% discount on Network): GCP Gross Margin is acceptable if Cloud carries <\$43m of the eSports licenses costs.

High case (\$520m/4-5y, 50% discount on Network): aggressive: implies client increases commit, and/or overspends vs commit (typical commit client spends ~1.3x), possible +1y extension. Then: GCP Gross Margin is solid even if Cloud carries the full \$135m.

Preliminary Technical Accounting assessment: Cloud likely to carry 60%-100% of costs (\$81M to \$135M)

Hug credits are recognized as Cloud revenue (Play>Cloud transfer)

Not factoring other Cloud products: PSO/Support (expected at low margin), G Suite (TBC in 2020).

Scenarios in red are not recommended

Scenarios in yellow are acceptable

Discounts on other products: 22% EDP, 25% on Compute VM, 15% on Storage. All scenarios assume ~\$49m of Hug credits over 3y (with Play>Cloud Revenue transfer); currently counted as 100% revenue (might go down to 95%). Not assuming that client might overspend vs commit.



Activision Blizzard King YouTube Deal: Deal Model

With ad tech improvements

Economics		Ad tech improvements		
	Year 1	Year 2	Year 3	Total
Watch Time Hours	77 M	96 M	120 M	292 M
Livestream	61 M	77 M	96 M	234 M
VOD	15 M	19 M	24 M	58 M
Revenue per hour	\$0.01	\$0.07	\$0.13	\$0.08
Livestream	\$0.01	\$0.08	\$0.15	\$0.15
VOD	\$0.02	\$0.02	\$0.02	\$0.02
Revenue	\$0.9 M	\$6.5 M	\$15.0 M	\$22.4 M
Livestream	\$0.5 M	\$6.1 M	\$14.4 M	\$21.1 M
VOD	\$0.3 M	\$0.4 M	\$0.5 M	\$1.3 M
CAC	\$0.9 M	\$6.5 M	\$15.0 M	\$22.4 M
YT Budget	\$0.4 M	\$0.2 M	\$0.0 M	\$0.6 M
Other PA Budget	\$44.1 M	\$38.5 M	\$30.0 M	\$112.6 M
YT Margin %	0%	0%	0%	0%

Assumes ad-tech work to improve monetization (ad podding) and as well as premium CPMs and STRs
 For livestream ad tech improvement assumptions see [slide](#)
 For monetization statistics and comp set see [slide](#)

Summary	
DAI Coverage	Commitment to build hybrid client/server based implementation to improve device coverage.
Interest Based Ads	Currently building contextual demo labelling system in combination with growing direct sold demand.
Serving Efficiency	Dedicate product/ENG efforts to optimize existing ads infrastructure for Live Sports
Demand diversity	Heavy sales push to accelerate growth of non-skip 15 second demand across Reserve and Auction, not limited to sports.

- RPH: Revenue per Hour
- Year 1 is calendar year 2020



Global Partnerships

Appendix

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Financial Summary: Appendix

Google / ABK x-PA Deal Financials (\$M)	BASE 2020	BASE 2021	BASE 2022	BASE 2023	BASE 2020-2023
Gross Revenue					
Play	\$810	\$830	\$810	\$790	\$3,240
Ads	\$156	\$203	\$249	\$293	\$901
Cloud	\$47	\$78	\$110	\$125	\$361
YouTube	\$1	\$7	\$15	\$0	\$23
Total	\$1,014	\$1,118	\$1,184	\$1,209	\$4,524
Contribution Margin (post incentives & costs to serve)					
Play	\$165	\$169	\$165	\$180	\$680
Ads	\$35	\$51	\$71	\$124	\$281
Cloud	\$0	\$10	\$22	\$43	\$75
YouTube	-\$39	-\$39	-\$35	\$0	-\$113
Total	\$160	\$192	\$222	\$348	\$923
Contribution Margin Impact vs. Hug					
Play	\$0	-\$20	-\$20	\$0	-\$40
Ads	\$0	-\$35	-\$35	\$0	-\$70
Cloud	-\$1	\$10	\$23	\$37	\$68
YouTube	-\$39	-\$39	-\$35	\$0	-\$113
Total	-\$40	-\$84	-\$67	\$37	-\$154



Activision Blizzard King Stadia deal for potential inclusion in X-PA deal

Background

Strategic Partnership - Current Status

- ABK is gating Stadia negotiations on first closing this xGoogle deal
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Deal Model

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Stadia Player Attach%	1%	1%	2%

- <https://www.statista.com/statistics/321374/global-all-time-unit-sales-call-of-duty-games/>

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1

Shanna Preve@google.com Marc Theermann@google.com FYI this is in the deck in the appendix currently
Michael Buckley, 12/18/2019



Credits and Licensing Costs - what ABK "wants"

Everything highlighted is an increased number vs our proposal for BC review



GCP Credits

Year 1

\$25M

Year 2

\$25M

Year 3

\$25M

Total

\$75M

vs BC ask

\$15



UAC

Matching

Credits

\$35M

\$35M

\$35M

\$105M

-



Co-Marketing

\$20M

\$20M

\$20M

\$60M

-



Esports

Licensing

\$50M

\$55M

\$60M

\$165M

\$30M

Total

\$130M

\$135M

\$140M

\$405M

\$45M

Google



Overview of Activision Blizzard King



Company Overview

- **Headquarters:** Santa Monica, CA
- **Employees:** 9,900 FTEs and part-time employees as of 12/31/18 (likely closer to 9,000 after Q1 '19 restructuring)
- **User Metrics:**
 - Candy Crush Franchise
 - xx
 - Hearthstone
 - xxx
 - Call of Duty Mobile
- **Description:**
 - Lead global developer and publisher of interactive entertainment content & services
 - Develops and distributes content and services on video game consoles, PC, and mobile devices
 - Operates eSports events & leagues and creates film and television content based on their games

Select Members of the Management Team

Name	Current Role	Experience
Bobby Kotick	CEO	<ul style="list-style-type: none"> • CEO for last 25+ years • Grown Activision Blizzard to be member of S&P 500 and one of Fortune's "100"
Coddy Johnson	President & COO of Blizzard	<ul style="list-style-type: none"> • Longtime employee with variety of ATVI leadership positions 2008-2016 • Rejoined Blizzard in 2017 in current role
Armin Zerza	Chief Commercial Officer	<ul style="list-style-type: none"> • Current role since Feb 2019, prior served as COO and CFO • 11 yrs at P&G as CFO of Latin America
Jacques Erasmus	Global CIO	

Brand

Select Key Franchises

ACTIVISION

CALL OF DUTY

BLIZZARD

WORLD OF WARCRAFT

HEARTHSTONE

OVERWATCH

King

Candy Crush

Bubble Witch 2 saga

FARM Heroes saga

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Slide 25

- 4 Lawrence: Perhaps we add some new user metrics and Call of Duty Mobile success.
Marc Theermann, 12/4/2019
- 1 Emily Putzer@google.com can you please add user metrics (DAUs, LTD downloads, etc) for CoD Mobile, Hearthstone, and the Candy Crush Franchise (suggest rolling up all of the different Candy games into 1 aggregate stat)
Lawrence Koh, 12/4/2019



Corporate ATVI performance

Quarterly Revenue (\$M, YoY%)	'18 Q1	'18 Q2	'18 Q3	'18 Q4	'19 Q1	'19 Q2	'19 Q3
Product sales	720 (42%)	464 (-4%)	263 (-32%)	808 (10%)	656 (-9%)	359 (-23%)	260 (-1%)
Subscription, licensing, and other revenues	1,245 (2%)	1,177 (2%)	1,249 (1%)	1,573 (20%)	1,169 (-6%)	1,037 (-12%)	1,022 (-18%)
Revenue by Platform							
Console	817	565	347	808	677	407	241
PC	519	451	482	727	494	361	341
Mobile & ancillary ¹	536	521	523	596	535	511	525
Other ²	93	104	160	250	119	117	175
MAUs							
Activision	51	45	46	53	41	37	36
Blizzard	38	37	37	35	32	32	33
King	285	270	262	268	272	258	247
Total	374	352	345	356	345	327	316

- **Activision:** still feeling effects of **disposition of Destiny** in Dec 2018, plus **lower sales of CoD catalog titles** (CoD Mobile not captured here)
- **Blizzard:** declines due to **lack of WoW release** and **underperformance of recent Hearthstone expansion**
- **King:** Candy Crush **MAU continuing to decline**. However, cites **lower digital storefront fees (Apple and Google)** as one reason for **higher operating income** despite lower MAU and revenue
- Still expect **increasing amount of sales** to be concentrated in **fewer franchises** (e.g. more focus on building out existing rather than creating new)
- Mix between product sales and subscription/licensing/other is seasonal, but generally falls **between 20-35% Product, 65-80% Subscription**

Google

¹mobile devices, toys, accessories, and physical merchandise
²revenue from studios and distribution businesses and MLG

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- 5 Will move to appendix for BC. Will be used to get internal alignment before BC.
Marc Theermann, 12/6/2019



Partnership Revenue (Actual & Aspirational Estimate)

	2018		H1 2019		2019 (Annualized)		Aspirational 2020* (30% growth over 2 year & Hug++)	
	Google Net Rev.	Partner Net Rev.	Google Net Rev.	Partner Net Rev.	Google Net Rev.	Partner Net Rev.	Google Net Rev.	Partner Net Rev.
Play	239.1m	538.2m	111.4m	268.1m	222.9m	536.2m	255.8m	707.3m
Buy-side: Search	10.0m		3.5m		7.1m		13.0m	
Buy-side: Display/Video	64.0m		42.2m		84.5m		109.1m	
Google Cloud	2.8m		2.1m		4.2m		124.6m	
Sell-side: Ad Manager King (with game ads in 2020)	3.8m	19.5m	8.5m	21.4m	17.0m	42.9m	15.0m	85.0m
Sell-side: Ad Manager Activision & Blizzard	0.0m	0.0m	0.0m	0.0m			7.0m	43.0m
Stadia								
YouTube (O&O Revenue)	0.44m	0.27m	0.14m	0.00m	0.3m	0.0m		5.8m
YouTube (Unclaimed UGC Partner Ad Revenue) * Partner means Creator revenue, not YouTube's revenue	18.3m	22.0m	10.0m	\$12.27m* ABK didn't claim UGC, revenue went to the Creator	20.0m	24.5m		
Total	338.4m	580.0m	177.9m	289.6m	335.8m	603.7m	524.5m	841.1m

Google

[Calculation details](#)
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EXHIBIT 151.R-032



Activision Blizzard King Stadia deal for potential inclusion in X-PA deal

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Project Update

Early results largely aligned with project objectives; several big wins, some challenges

Goal 1: Prioritize Play

Positive - 7 Signed, 10 in redline



Goal 2: Improve Dev Sentiment

Mixed - most happy, some holdouts



Goal 3: Boost xPA Success

Positive - credible xPA uplift



Key Result - In 2019, 73 titles (100% launches) from Hug developers sim-shipped on Google Play

Learnings

Everyone loves UAC Credits, incrementality tbd

GCP attractive but complex; huge opportunity for upsell, and new accounts

YouTube value emergent, needs dev education

Risks

Tencent driving coordinated effort across portfolio for better economics.

Google

Slide 29

- 1 Samer Sayigh@google.com Lawrence Kohl@google.com I heard that Riot is coming back next week on the Redline, is this still considered a "hold out"?
Cyrus Jame, 12/12/2019



Overwatch League (OWL) - bringing the traditional sports model to esports

- Global league entering its third season in 2020, owned and operated by Blizzard (and subsidiary MLG)
 - Income streams: broadcast licensing, ads, sponsorships, and franchise fees (est \$30-60M per team)
 - Major sponsors include Coca-Cola, Toyota, HP, Intel, Bud Light, Xfinity
- 20 city-based franchises owned by outside investors such as Kraft Group (NE Patriots), Kroenke (LA Rams, Arsenal FC), Comcast
 - Income streams: revenue share from ticket sales, physical and in-game merchandise, local sponsorships
 - Prize pool nominal (\$5M in 2019)
- 2019 games were played at Blizzard Arena in Burbank, but in 2020 teams will host visitors in homestand events in their local markets
 - Such as The Novo in downtown LA and Wembley Arena in London
 - Comcast building dedicated esports arena for Philly Fusion (2021)
- Broadcast partnerships include \$90M exclusive 2-year streaming deal with Twitch, and multi-year deal with Disney/ESPN/ABC (undisclosed amt)
 - Avg viewership during season = ~313K (up 18% from 2018)
 - Grand Finals = ~1.1M (up 16%)



- Viewership sources
- <https://www.bizjournals.com/losangeles/news/2019/09/05/activision-blizzard-uses-nielsen-numbers-to-draw.html#:~:targetText=Over%20the%20course%20of%20the,minute%20audience%20of%20313%2C000%20viewers.>
- <https://variety.com/2019/digital/news/overwatch-league-grand-finals-viewership-2019-1203357584/>



Call of Duty World League - replicating OWL with Activision title

- Launching first season in Jan 2020 with 12 teams
- Overwatch League owners were given first right of negotiation, with estimated franchise fee of \$25M
- Notable owners include Kroenke, Cox Enterprises, and Sterling VC (NY Mets)
- Similar home/away format as Overwatch League. Each city will host 2 homestand events over the course of the season
 - Exact locations and broadcast information TBD
- \$6M prize pool, and players are guaranteed a base salary of \$50K plus healthcare and retirement benefits

